

ENVIRONMENTAL PROTECTION

The California Environmental Protection Agency works to restore, protect, and enhance environmental quality. The agency coordinates state environmental regulatory programs and ensures fair and consistent enforcement of the law.

The Budget proposes total funding of \$2.9 billion (\$42.2 million General Fund and \$2.89 billion other funds) for all programs included in this Agency.

AIR RESOURCES BOARD

The Air Resources Board has primary responsibility for protecting air quality in California as well as implementation of the California Global Warming Solutions Act of 2006 (AB 32). The Budget includes \$437.6 million and 1,278.2 positions for the Board.

REDUCING GREENHOUSE GAS EMISSIONS THROUGH THE INVESTMENT OF CAP AND TRADE AUCTION PROCEEDS

AB 32 established California as a global leader in reducing greenhouse gas emissions (GHGs). To meet the goals of AB 32, the state has adopted a three-pronged approach to reducing greenhouse gas emissions, including adopting standards and regulations, providing emission reduction incentives via grant programs, and establishing a market-based compliance mechanism known as Cap and Trade. The Cap and Trade program, as one component of the state's comprehensive approach, provides assurance that state goals will be achieved by setting a statewide limit on the GHG sources responsible for 85 percent of California GHG emissions. It establishes a financial incentive

for industries subject to the statewide limit or cap to make long-term investments in cleaner fuels, more efficient energy use, and transformational technological and scientific innovations. The Cap and Trade program provides GHG emitters the flexibility to implement the most efficient options to reduce GHG emissions. Based on the latest estimate in 2010, the Cap and Trade program is responsible for approximately 23 percent of the required GHG emission reductions to meet the AB 32 2020 goal.

The Air Resources Board (ARB) held the first of three 2012-13 auctions on November 14, 2012, resulting in \$55.8 million in proceeds to the state. The auction of allowances directly allocated to independently operated electric utilities resulted in proceeds of \$233.3 million, which will be credited to customers. The other two auctions will occur on February 19, 2013 and May 16, 2013.

In recognition of the state's initial experience with the first auction, the Budget only addresses the expenditure of auction proceeds of \$200 million in 2012-13 and \$400 million in 2013-14. Total revenues from the auctions may exceed these amounts.

Chapter 807, Statutes of 2012 (AB 1532) requires Finance to provide three-year investment plans for auction proceeds, beginning with the 2013-14 May Revision, while Chapter 830, Statutes of 2012 (SB 535) requires that at least 10 percent of the proceeds received by the state be devoted to the most impacted and disadvantaged communities to ensure the provision of economic and health benefits.

The first plan, when completed, will prioritize programs that significantly advance the goals of AB 32. While the specific details will be developed by the Administration after receiving input through the stakeholder process, the following areas are best suited for investment. Transportation is the single largest contributor to GHGs in California (38 percent), and reducing transportation emissions should be a top priority (including mass transit, high speed rail, electrification of heavy duty and light duty vehicles, sustainable communities, and electrification and energy projects that complement high speed rail). The electricity and commercial/residential energy is the second largest contributor of GHG emissions (30 percent), and the water sector is one of the largest users of electricity in the state. Encouraging energy efficiency projects with financing incentives such as the Property-Assessed Clean Energy (PACE) program will help individuals and families who need longer timeframes and simpler terms than traditional financing to pay for home energy improvements. Programs that reduce the energy used in the supply, conveyance and treatment of water throughout the state can significantly reduce GHGs while also saving water. Other areas to be examined

during the planning process include sustainable agriculture practices (including the development of bioenergy), forest management and urban forestry, and the diversion of organic waste to bioenergy and composting. The investment plan will assure benefits to disadvantaged communities.

STATE WATER RESOURCES CONTROL BOARD

The State Water Resources Control Board and the nine Regional Water Quality Control Boards preserve and enhance the quality of California water resources and ensure proper allocation and effective use of state water. The Budget includes \$674.8 million (\$14.7 million General Fund) and 1,503.9 positions for the Department.

SAFER DRINKING WATER

The Administration is reviewing the State's activities related to the provision of safe drinking water and to recommend efficiencies and alignments to maximize the state's ability to ensure that all members of the public have access to safer water. In addition, the State Water Resources Control Board will recommend potential funding mechanisms to provide disadvantaged communities with safe, affordable, and reliable water. Stakeholders will be consulted in the development of a proposal to improve the administration of the water programs and to implement sustainable funding mechanisms.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL

The Department of Toxic Substances Control protects California residents and the environment from the harmful effects of toxic substances through restoring contaminated resources, enforcement, regulation, and pollution prevention. The Budget includes \$189.1 million (\$21.1 million General Fund) and 941.1 positions for the Department.

HAZARDOUS WASTE CONTROL ACCOUNT REFORM

The Department of Toxic Substances Control's hazardous waste fee system is complex and difficult to administer. It has also yielded inconsistent revenues, which has resulted in expenditures exceeding revenues for a number of years, requiring program reductions and significantly reducing the available fund balance. Later this spring, the Administration will propose to streamline the hazardous waste fee system, modify the fees to ensure long-term stability of the Hazardous Waste Control Account, and align the fees with program objectives.

DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

The Department of Resources Recycling and Recovery (CalRecycle) protects public health, safety, and the environment by regulating solid waste facilities and promoting recycling. The Budget includes \$1.5 billion and 686.6 positions for the Department.

BEVERAGE CONTAINER RECYCLING FUND REFORM

Expenditures from the Beverage Container Recycling Fund exceed revenues by approximately \$100 million as a result of a combination of historically high recycling rates and mandated program payments. All General Fund loans are planned to be repaid to the fund by 2014-15.

The Administration anticipates introducing budget-related reform measures in the spring. In anticipation of that proposal, the Department has been meeting with stakeholders since July 2012. Important topics discussed with the group include addressing fraud, reviewing program operations, and ensuring cash flow and revenues support the long-term viability of the recycling program.